Analysis of transfer pricing in lending: Case study of company x and a subsidiary

Kristianti Hosiana
Department of Accounting
Faculty of Economics and Business
Universitas Indonesia
Depok, Indonesia
kristianti_hosiana@yahoo.com

Christine Tjen
Department of Accounting
Faculty of Economics and Business
Universitas Indonesia
Depok, Indonesia
indivara_devi@yahoo.com

***Abstract*—This study discusses interest payments on loan transactions between Company X and its subsidiary based on transfer pricing rules and Government Regulation No. 94 of 2010. The purpose of this study is to determine how transfer pricing is implemented and to analyze the tax savings on interest payments in the transactions between Company X and one of its subsidiaries. This research uses a qualitative research approach. The data are from Company X and its subsidiary, interviews with related parties, and a study of relevant literature. The result of the research concludes that interest-free loan transactions between Company X and its subsidiary are not in accordance with the prevailing transfer pricing regulations in Indonesia and Government Regulation Number 94 Year 2010. It can be said that the company does not apply good tax planning because if it is seen from the calculation of the three schemes that the tax paid Company X on the scheme without interest is much greater than the tax on the scheme with interest.**

Keywords—Transfer Pricing; Interest; Tax; Implementation

I. INTRODUCTION

The rapid and complex development in the global business world demands that companies build excellence to compete, earn profits, and grow continuously. A company must undertake plans to improve its business strategy to gain competitiveness and excellence Taxes affect a company's business decisions. The rational taxpayer will always try to minimize the tax burden and companies use tax planning to minimize their tax burden. Company transfer price planning is part of tax planning.

In Indonesia, transfer pricing has become an issue of great concern to the Directorate General of Taxation because it is suspected that the current practices of transfer pricing are aimed at illegal tax evasion. Reducing a tax burden or tax avoidance using transfer pricing is accomplished by shifting profits from high tax countries to low tax countries. International firms relocate global earnings to low-tax countries and charge affiliate costs to high-tax countries so that fiscal costs are not taxable at high rates. As a result, the company's global tax burden is minimal because its global profits are taxed at a low rate or even not taxed, while concurrently, state tax revenues are reduced. This is often referred to as misuse of transfer pricing.

Companies X and Y face issues related to transfer pricing. Company X, located in Indonesia, has a growing subsidiary in Singapore, namely Company Y. In 2013 and 2016, Company X secured a loan of Rp 54,000,000,000 and Rp 15,000,000,000 from Bank ABC for working capital reserves. Then, Company X secured a loan of Rp 38,000,000,000 from Bank XYZ. Then, Company X lends Company Y Rp 48,026,951,485, Rp 775,757,758 and Rp 811,239,304 in 2013, 2015, and 2016 without interest to be used for working capital.

In the financial statements in 2013 recorded Company X earnings amounting to Rp 17,202,595,666 while in 2014 recorded Company X loss of Rp 1,523,060,392. In 2014, tax office (KPP) conducted a tax audit on Company X because Company X had overpaid Corporate Income in 2013 amounting to Rp 324,778,202, respectively. From the examination result, Company X had to pay a fine of interest. Based on the above explanation, it can be seen that Company X bore the interest of the bank, but did not collect interest income from Company Y. Likewise, Company Y should have paid interest to Company X, but did not. Company X and Company Y have still not applied interest for inter-parent and subsidiary loans. This can be a problem in the future and can be used to reduce tax payments, which can certainly harm the state.

Based on the background described, the problems in this study can be formulated as follows:

What is the application of transfer pricing on interest payment transactions between Company X and its subsidiaries?

How is analysis completed on the tax savings of interest payment transactions between Company X and its subsidiaries?

II. THEORETICAL BASIS

A. The Definition of Transfer Pricing

According to [1], transfer pricing is the price of goods or services that have been agreed by both parties in financial business transactions and other transactions. According to [2], transfer pricing is the allocation of profits within a company with the aim to minimize, rather than avoid, taxes. According to [3], transfer pricing is a business activity that aims to ascertain whether the price specified in transactions between related companies is in line with the principle of the arm's length price principle. Among the definitions of transfer pricing above, we conclude that transfer pricing is a set price

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in a business transaction between two parties, based on the principle of fair pricing with an aim to minimize taxes.

B. Special Relationship

Based on the Statement of Financial Accounting Standards (PSAK) Number 7 concerning the disclosure of related parties [4], parties are deemed to have a related relationship if one party has the ability to control other parties or has significant influence over other parties in making financial and operational decisions.

According to Law Number 36 Year 2008 Article 18 Paragraph 4 [5], special relationships are considered to exist in the following scenarios.

a. Relationship of Ownership or Equity Participation

   1. One taxpayer has direct or indirect capital participation of at least 25% in the other taxpayer,
   2. One taxpayer receives inclusion of 25% from two or more taxpayers, or
   3. A relationship between two or more of the above-described taxpayers.

b. Mastery Relationship through Management or Technology Use

One taxpayer controls one or more other taxpayers or two or more taxpayers are under the same control, either directly or indirectly.

c. Family Relationship

The relationship is by blood and the fifth family in the lineage is straight and/or sideways one degree.

C. Principle of Fairness and Business Risk (Arm's Length Principle)

The regulation on transfer pricing is also contained in the Regulation of the Director General of Taxes PER 43/PJ/2010 amended by Regulation of the Director General of Taxes PER 32/PJ/2011 [6]. Article 1, paragraph 5 states that the principle of fairness and business rule (arm's length principle, or ALP) is a principle that provides that conditions in transactions conducted between related parties are equal or proportional to the conditions in transactions conducted between unrelated parties. The price or profit in a transaction made between related parties shall be equal to or in the range of price or profit in transactions made between non-related parties.

In PER 22/PJ/2013 [7], in the determination of reasonableness and prevalence are several things that need to be considered, especially in intra-group lending transactions. Those things are as follows:

a) An analysis of debt requirements
b) Ensuring that the loan from affiliates is true
c) A fairness test with the ratio of debt to capital
d) A fairness test of the interest rate on intra-group loans

D. Determination Method of Transfer Pricing

Under PER 22/PJ/2013 [7], there are several methods that can be used to assess the fairness of the service charge for transfer pricing as follows:

1. Comparable Uncontrolled Price (CUP)
   This method compares the transaction price of the related party with the transaction price of similar goods with an unrelated party (independent comparison), either internal CUP or external CUP. This method is actually the most accurate method, but the difficulty is finding items that are adequately similar.
2. Cost Plus Method
   This method is accomplished by adding the level of gross profit derived by the same company from transactions with a related party or the level of gross profit earned by another company from a transaction equal to a related party. This method is commonly used in manufacturing businesses.
3. Transactional Net Margin Method (TNMM)
   This method is performed by comparing the percentage of net operating income to expenses, to sales, to assets, or to other bases of transactions between related parties; the percentage of net profit of operations derived from transactions in proportion to those of non-related parties; or the percentage of net operating profit earned on comparable transactions conducted by other non-related parties.

As for interest payment transactions, PER 22/PJ/2013 [7] stipulates the comparable uncontrolled price method.

E. Documentation Transfer Pricing (TP Doc)

Taxpayers who conduct transactions with related parties including Domestic Taxpayers (including Bentuk Usaha Tetap) shall prepare a transfer pricing document. The document is in the form of basic documentation and steps in determining fair price or arm's length principle according to the prevailing laws and regulations.

In the regulation of the Minister of Finance No. 213/PMK.03/2016 [8] on the types of documents and/or additional information that must be kept by Taxpayers who transact with related parties and management procedures, the documentation structure presented is described as follows:

a. Organizational Structure
b. Industrial and Market Conditions
c. Transactions with Related Parties
d. Assumptions, Strategies, and Price Policy
e. Cost Contribution Agreement
f. Comparative Analysis, Functions and Risks
g. Choosing the Right Pricing Transfer Method
h. Documentation Background

F. Government Regulation No. 94 of 2010

In Government Regulation Number 94 of 2010 on Calculation of Taxable Income and Redemption of Income Tax in the Current Year [9], in particular in Article 12 explains that:

1. A non-interest bearing loan from a shareholder received by a taxpayer in the form of a limited liability company is permitted if:
   a. The loan comes from the funds owned by the shareholders themselves and not from other parties;
   b. Capital that should be paid by the lender's shareholders has been fully paid;
   c. The shareholder lending is not in a state of loss; and

d. Limited lending companies are experiencing financial difficulties for their business continuity.
2. If the loan received by a Taxpayer is from a limited liability company of its shareholder does not meet the provisions referred to in paragraph 1, the loan is payable on interest at the fair interest rate.

III. Research Method and Company Review

A. Research Method

This study uses a qualitative approach because it can provide a thorough understanding of the implementation of transfer pricing and analyze the tax savings on interest payment transactions between Company X and its subsidiary (Company Y). In this study there is also data in the form of numbers; however because this is descriptive research, statistical methods are not employed; the figures show the state of a social phenomenon using non-statistical calculations.

This study employs a case study analysis that provides an overview of transfer pricing issues for interest payment transactions between Company X and its subsidiaries.

The object of research is the transfer pricing implementation and tax savings on interest payment transactions conducted by Company X and its subsidiary in 2013, 2015, and 2016 is associated with the Regulation of the Director General of Taxes in Indonesia.

The data collection methods used in this research include using primary data, secondary data, literature study and interviews.

B. General Description of The Company

Company X is a company engaged in the field of hospitality based in Indonesia. It was incorporated in Jakarta in 2008 and started its business activities in 2009. In 2013, the Company X had three shareholders, all of which were based in Indonesia, namely Company A, B and C with ownership shares of 30%, 35%, and 35%, respectively. Company X also has a subsidiary, namely Company Y that is also engaged in the field of hospitality. Company Y was established in Singapore in 2013. As a company that is still in development status, Company Y needs a boost of funding from Company X. Company X owns 95% of the shares of Company Y and the remaining 5% is owned by other companies.

IV. Analysis of Research Results

Based on Law Number 36 Year 2008 in Article 4 [5], there are three factors covered:

1. Owner Factor or Equity Participation
   Because Company X has 95% share ownership of Company Y, it can be said that Company X and Y fulfill the criteria of ownership or capital participation.
2. Management Mastery Factor or Technology
   In this case, Companies X and Y do not have management or technological mastery. So, it can be said the relationship between Company X and Y does not meet the mastery of management or technology definition of a special relationship.
3. Family Relationship Factors
   Based on the earlier explanation, there is no familial relationship in ownership or management of the company. Therefore, it can be said that Companies X and Y do not satisfy the family relations factor.

A preferential relationship in the tax context may occur if one or more of the above factors are met. From the above explanation, it can be said that Company X and Company Y have a special relationship in terms of ownership or equity participation. This means that lending and borrowing transactions conducted between Company X (in Indonesia) and Company Y (in Singapore) can be categorized as transactions between related parties.

When considering the regulations contained in PER 22/PJ/2013 [7], when examining the fairness and business customs for intra-group lending transactions, several things need to be analyzed as follows.

1. Analysis of debt requirements
   In this case, Company Y (subsidiary) is a newly established company, so the company still needs funds. It is unlikely that the Company Y could secure a loan from a bank at this stage. Therefore, Company Y borrows funds from Company X, which acts as a holding company. Based on the above explanation, it is clear that the debt requirement (for Company Y) is true. This is described in the company's audit report, which describes receivables of Rp 48,026,951,485, Rp 775,757,758, and Rp 811,239,304 to Company Y in 2013, 2015 and 2016, respectively.
2. Ensure that the loan from the affiliates is true
   To verify that related party liabilities actually occur between Companies X and Y, payables and receivables appearing in their respective financial statements prove that both companies are engaged in lending and borrowing transactions.
3. Fairness test by comparison of debt to capital (DER Ratio) Table I outlines this analysis.
   Comparing debt to capital, Company X has DER results in 2013, 2015 and 2016 amounting to 1.17; 0.38 and 0.04. It should be noted, whether larger short-term debt or longer-term debt is greater. In this case, short-term debt is greater than long-term debt and it is still acceptable, because the amount of current debt is often caused by short-term operating debt.
4. The fairness test on the interest rate on intra-group loans.
   In this case, the fairness of a lending and borrowing transaction is the imposition of interest on the loan. As previously discussed, Company X borrowed funds from Bank ABC and XYZ at standard rates, while Company X lent funds to Company Y without interest. This resulted in an imbalance between Company X, which must bear the interest expense on its loan with Bank ABC and Bank XYZ, but Company Y gets the benefit of a loan without paying interest to Company X.

In accordance with Regulation of the Minister of Finance No. 213/PMK.03/2016 on documentation of transfer pricing (TP Doc) [8], Company X made a TP Doc; however, since the company does not charge interest for its loan transaction with a related party, these loans use the transfer pricing method. In the determination of the transfer pricing method,

according to PER 22 of 2013 [7], the comparable uncontrolled price comparison method should have employed, using the interest rate ratios of Bank ABC and Bank XYZ, which were 6%, 9% and 10% for loans in 2013, 2015 and 2016, respectively.

TABLE I. DEBT AND CAPITAL OF COMPANY X IN YEARS 2013, 2015, 2016

(in Rupiah)	2013	2015	2016
DEBT	76,968,906,356	44,818,035,605	6,856,022,875
CAPITAL	65,506,709,950	116,438,281,878	153,709,143,453

Source: Corporate Audit Report of Company X

In government regulations, lending and borrowing transactions without interest-bearing loans may be allowed. This is regulated in Government Regulation Number 94 of 2010 [9], especially Article 12. An interest-free loan from shareholders received by taxpayers in the form of a limited liability company is permitted if:

a. The loan comes from the shareholder's own fund and not from another party.
   The condition that occurs between two companies is a lending and borrowing transaction, in which the Bank loans money to one company, Company X and then Company X lends it to Company Y. This means that the actual funds received by Company Y is a loan from the parties' Bank, not from Company X acting as a shareholder. Therefore, this transaction does not meet the applicable requirements.

b. The capital that should be paid by the lender's shareholders has been fully paid.
   This requirement is made to ensure that the loan without interest is indeed true debt, not a capital deposit. In practice, the shareholders deposit all of their capital in Company Y; so, this provision is fulfilled.

c. The lending shareholder is not in a state of loss.
   This requirement aims to ensure that when Company X provides loans, Company X is in a profit state, since it is not permittable for Company X to suffer losses yet still lend money to other parties. In this case, when lending funds to Company Y, Company X's financial condition is not in a state of loss. Table II shows that in the case example, Company X's earnings (after tax) in 2013, 2015 and 2016 were Rp 17,202,595,666; Rp 11,389,476,012; and Rp 12,691,845,138, respectively. From the above explanation, it can be said that this transaction meets the prevalling regulations.

d. Limited lending companies are experiencing financial difficulties affecting business continuity.

In 2013, Company Y was a new company and needed financial support for its business continuity. Later, Company Y also obtained loans from Company X in 2015 and 2016, due to its losses suffered from 2013 to 2016. Therefore, it appears that this lending and borrowing transaction is in compliance with prevailing regulations.

If the loan received by a taxpayer in the form of a limited liability company from its shareholder does not meet the provisions referred to in Paragraph 1, the loan is payable with interest at a reasonable interest rate. Of the four provisions that must be met, these lending and borrowing transactions meet three provisions only. The fourth provision—that the terms of the loan must come from the shareholders, not from the other party—is not met.

TABLE II. NET INCOME STATEMENTS OF COMPANY X YEAR 2013, 2015, 2016

Year	Profit (Loss)
2013	Rp 17,202,595,666
2015	Rp 11,389,476,012
2016	Rp 12,691,845,138

Source: Corporate Audit Report of Company X

If not all of the provisions are met, then Company X and Y must continue to use a lending rate that matches the fair interest rate. However, in fact, Companies X and Y have not been charging interest on the loan. This is a distortion of both companies in defiance of Government Regulation No. 94 of 2010. The tax audit of Company X should reveal this discrepancy. Company Y borrows money from the Bank with interest-bearing loan, and then lends it to Company X without interest, upon this irregularity; therefore, Company X is liable for the interest on the loan.

A. Analysis of Tax Saving on Interest Payment Transactions between Company X and its Subsidiary

In practice, Company X enters into a loan transaction whereby Company X lends funds to a subsidiary but does not charge interest. This matter has not been regulated in a TP Doc because in practice, the parent and subsidiary agree not to charge interest on loans to a new subsidiary in poor financial condition that requires funds for working capital. The subsidiary, Company Y incurs losses from 2013 to 2016. For this reason, Company X does not charge interest on its loan.

In this case, Company X and its may have violated applicable tax rules according to the Government Regulation Number 94 of 2010 because it does not meet all applicable requirements for interest-free intra-group loans.

Several simulations have also been conducted that aim to discern whether Company X incurred any tax savings with its scheme. The simulation is as follows:

1) Comparison of Interest Application and Calculation of Income Tax Payable of Company X Year 2013

Table III shows the comparison of the application of interest on the income statement and calculation of tax expense to Company X in 2013.

Based on the above table shows the comparison of profits earned by the company in three schemes. On the no-interest scheme after examination is much greater when compared with interest-free earnings before the examination and profit with interest. This is due to the correction of interest expense arising from the tax audit. Initially, Company X acknowledged the interest cost of Rp 3,675,000,000, but after tax audit correction of interest expense so that the interest cost becomes Rp 406,499,135. Interest charges on interest-free schemes after checks are much smaller when compared to interest charges on a no-interest scheme prior to inspection

and with interest, resulting in substantial profits and large owed taxes as well.

Initially (before the examination), Company X was paid over Rp 324,778,202. However, after tax audit, Company X actually experienced underpayment amounting to Rp 436,144,522. And if compared with the scheme with interest, Company X actually has the potential to experience overpayment amounting to Rp 86,166,261.

According to Law No. 16 of 2009 Article 14, paragraph 3, in the interest-free scheme after the examination, Company X shall also be liable to administrative sanctions in the form of interest of 2% per month calculated from the expiration of the tax period until the issuance of Tax Collection Letter. The Annual Income Tax Return for 2013 is submitted on April 30, 2014, and for the income tax issuance is issued Tax Collection Letter on September 18, 2014, so the calculation of administrative sanctions are:

- Amount Under Payment : Rp 436,144,522
- Interest (5 months x 2% x 436,144,522) : Rp 43,614,452

TABLE III. COMPARISON OF INTEREST RATES IN INCOME STATEMENT AND CALCULATION OF CORPORATE TAX EXPENSE OF COMPANY X YEAR 2013

2013 (In Rupiah)	Without Interest Before Examination	Without Interest After Examination	With Interest
Income	34,893,460,110	34,893,460,110	34,893,460,110
COGS	23,602,977,803	23,602,977,803	23,602,977,803
Gross Profit	**11,290,482,307**	**11,290,482,307**	**11,290,482,307**
Operating Expenses	5,156,280,487	5,156,280,487	5,156,280,487
Operating Profit	**6,134,201,820**	**6,134,201,820**	**6,134,201,820**
Interest Expenses	(3,675,000,000)	(406,499,135)	(3,675,000,000)
Interest Income (Company Y)	-	-	2,881,617,089
Other Income (Expenses)	16,209,246,713	16,209,246,713	16,209,246,713
Earning Before Tax	**18,668,448,533**	**21,936,949,398**	**21,550,065,622**
Temporary Difference	(24,104,775)	(24,104,775)	(24,104,775)
Fixed Difference	(12,347,853,841)	(12,347,853,841)	(12,347,853,841)
Fiscal Profit (Loss)	6,296,489,917	9,564,990,782	9,178,107,006
Fiscal Profit (Loss) (Rounding)	**6,296,489,000**	**9,564,990,000**	**9,178,107,000**
Tax Allowance	108,269,383	164,471,909	157,819,379
Non Tax Allowance	1,357,583,484	2,062,303,682	1,978,887,992
Corporate Income Tax	**1,465,852,867**	**2,226,775,591**	**2,136,707,371**
Income Tax 23	-	-	(432,242,563)
Income Tax Payable	**1,465,852,867**	**2,226,775,591**	**1,704,464,808**
Income Tax 25	(1,790,631,069)	(1,790,631,069)	(1,790,631,069)
Under (Over) Payment	**(324,778,202)**	**436,144,522**	**(86,166,261)**
Tax Sanction	-	43,224,256	-
Total Tax Expense	**(324,778,202)**	**479,758,974**	**(86,166,261)**

Source: Audit Report, Processed by the Author

If viewed from the above calculation, the scheme without interest after the examination must pay less taxes and also administrative sanctions so that the tax burden is greater than the interest-free tax scheme before the examination and interest expense. Hence it should be said that Company X chooses a scheme with interest because it is more profitable than a non-interest-free scheme because if it remains with a no-interest scheme, the potential for a corporate tax audit and the potential for underpayment will be higher. So also with administrative sanctions to be paid by the company. If the company implements the interest, then the company can make tax savings of Rp 565,925,235 when compared with the interest-free scheme after the examination.

2) Comparison of Interest Application and Calculation of Income Tax Payable of Company X Year 2015

Table IV shows the comparison of the application of interest on the income statement and calculation of tax expense to Company X in 2015.

Based on the above simulation, the profit before tax in the three schemes above shows that the biggest profit is the profit without interest after the examination that is Rp 11.928.752.500. This is due to the correction of the company's interest cost. Originally Rp 3.515.000.000 to Rp 3,443,242,407, so the interest cost becomes smaller than before, the profit becomes larger and the tax burden also becomes larger. In the calculation there is also compensation loss in 2014 amounting to Rp 1,488,168,749 which automatically reduce the tax burden in 2015.

TABLE IV. COMPARISON OF INTEREST RATES IN INCOME STATEMENT AND CALCULATION OF CORPORATE TAX EXPENSE OF COMPANY X YEAR 2015

2015 (In Rupiah)	Without Interest Before Examination	Without Interest After Examination	With Interest
Income	35,240,420,263	35,240,420,263	35,240,420,263
COGS	28,173,171,270	28,173,171,270	28,173,171,270
Gross Profit	**7,067,248,993**	**7,067,248,993**	**7,067,248,993**
Operating Expenses	6,549,733,869	6,549,733,869	6,549,733,869
Operating Profit	**517,515,124**	**517,515,124**	**517,515,124**
Interest Expenses	(3,515,000,000)	(3,443,242,407)	(3,515,000,000)
Interest Income (Company Y)	-	-	69,818,198
Other Income (Expenses)	14,854,479,783	14,854,479,783	14,854,479,783
Earning Before Tax	**11,856,994,907**	**11,928,752,500**	**11,926,813,105**
Temporary Difference	98,756,357	98,756,357	98,756,357
Fixed Difference	(7,599,479,315)	(7,599,479,315)	(7,599,479,315)
Fiscal Profit (Loss)	4,356,271,949	4,428,029,542	4,426,090,147
Fiscal Loss Compensation 2014	(1,488,168,749)	(1,488,168,749)	(1,488,168,749)
Fiscal Profit (Loss) After Compensation	2,868,103,200	2,939,860,793	2,937,921,398

Source: Audit Report, Processed by the Author

TABLE V. COMPARISON OF INTEREST RATES IN INCOME STATEMENT AND CALCULATION OF CORPORATE TAX EXPENSE OF COMPANY X YEAR 2015 (CONTINUED)

2015 (In Rupiah)	Without Interest Before Examination	Without Interest After Examination	With Interest
Fiscal Profit (Loss) After Compensation	2,868,103,200	2,939,860,793	2,937,921,398
Fiscal Profit (Loss) (Rounding)	**2,868,103,000**	**2,939,860,000**	**2,937,921,000**
Tax Allowance	48,832,045	50,053,773	50,020,760
Non Tax Allowance	619,361,659	634,857,454	634,438,730
Corporate Income Tax	**668,193,705**	**684,911,227**	**684,459,490**
Income Tax 23	-	-	(10,472,730)
Income Tax Payable	**668,193,705**	**684,911,227**	**673,986,760**
Income Tax 25	(373,550,574)	(373,550,574)	(373,550,574)
Under (Over) Payment	**294,643,131**	**311,360,653**	**300,436,186**
Tax Sanction	-	31,136,065	-
Total Tax Expense	**294,643,131**	**342,496,718**	**300,436,186**

Source: Audit Report, Processed by the Author

In all the above schemes seen that the company suffered underpayment, of course with the amount of different pay less different. Prior to the examination of Company X underpayment amounted to Rp 294,643,131, after the Company's examination X underpayment amounted to Rp 311,360,653 and on the scheme with interest, Company X underpaid of Rp 300,436,186.

A no-interest scheme after an examination that has an underpayment amount that is greater than the other two schemes. According to Law No. 16 of 2009 Article 14, paragraph 3, in the interest-free scheme after this examination, the company must pay the underpayment tax plus the administrative sanction as well. The 2015 Annual Tax Return is filed on April 30, 2016 and assumed the Tax Collection Letter issued on September 18, 2016, the calculation of administrative sanctions are as follows:

- Amount Under Payment : Rp 311.360.653
- Interest (5 months x 2% x 311.360.653) : Rp 31.136.065

If judging from the above calculation, if Company X still chooses interest-free scheme, Company X will be continuously examined by tax and after inspection Company X must pay its tax shortfall of Rp 342,496,718. Whereas if the company chooses a scheme of interest, Company X still pays taxes shortage but in less amounts than the amount of underpayment in the interest-free scheme after the examination of Rp 300,436,186. And if the company applies the scheme with interest, the company can save tax expense of Rp 42,060,532.

3) Comparison of Interest Application and Calculation of Income Tax Payable of Company X Year 2016

Table V shows the comparison of the application of interest on the income statement and calculation of tax expense to Company X in 2016.

Based on the above three schemes, the largest profit before tax is the interest income-free scheme after the examination of Rp 14,059,607,848. This is due to the correction of the company's interest cost. Originally Rp 1.650.000.000 to Rp 1,560,763,677, so the interest cost becomes smaller than before, the profit becomes larger and the tax burden also becomes greater.

Prior to inspection of Company X underpayment amounting to Rp 1,062,519,655. After the examination, Company X underpaid Rp 1,083,235,708 and Rp 1,069,183,714 in the interest-bearing scheme. According to Law No. 16 of 2009 Article 14, paragraph 3, in the interest-free scheme after the examination, Company X shall also be liable to administrative sanctions in the form of interest of 2% per month calculated from the expiration of the tax period until the issuance of Tax Collection Letter. The Annual Income Tax Return for 2013 is submitted on April 30, 2014, and for the income tax issuance is issued Tax Collection Letter on September 18, 2014, so the calculation of administrative sanctions are:

Amount Under Payment : Rp 1,083,235,708
Interest (5 months x 2% x 1,083,235,708):Rp 108,323,571

In the interest-free scheme after the examination, the company must pay its underpayment and administrative sanctions so that the tax burden is greater than the interest-free scheme tax before the examination and interest expense. Hence it can be said that Company X chooses a scheme with interest because the amount of underpayment is less than the interestless scheme.

If the company continues to use the interest-free scheme, the potential for tax audits and underpayment potential will be higher. So also with administrative sanctions to be paid by the company. If the company implements the interest, the company can make a tax deduction of Rp 15,268,853 when compared to the interest-free scheme after the examination.

According [10], the company should still apply interest without seeing any special relationship between parent and subsidiary. And to determine the amount of interest that must be charged to the subsidiary can be seen based on credit worthiness study. If the borrowing company is a financial distress company, the interest is greater, otherwise if the company is healthy then the interest applied is small. In this case Company X also has to adapt to keep applying interest, in other words it should not constantly not apply interest as this will have an impact on the company. The company will be corrected continuously by the tax inspector if the company still does not apply interest. To avoid this, the company must recognize the interest income on the loan or in other words keep applying interest even though the transaction is a transaction with a related party.

If viewed from the aspect of tax planning, Company X is a company whose tax planning is done unwise [11]. This is because even though the company has checked taxes and has been fined interest, the company still does not apply interest. One of the most important things in business is when companies can manage the risks. The way that companies can do to manage the risk well is degan to have anti tax avoidance regulation which one of them is by transfer pricing. If seen from the explanation of Company X, this proves that Company X can not manage its risks properly and Company X can not transfer owner pricing guidance (transfer pricing rules Indonesia). As a result, firms that previously wanted to be efficient against the tax burden, were subject to continuing corrections up to the fine of interest and

the worst possibility was imposed sanctions. In practice the business may be a tax penalty that Company X liability is still within reasonable limits that the company can still bear so that the company continues to not apply interest on its loan transaction. But this may be a consideration for shareholders if the company continuously imposed a fine, then the shareholder is likely to dispose of its role as a shareholder in Company X. This is because shareholders feel aggrieved if Company X must be subject to interest penalties constantly. In addition, performance companies in Indonesia and in Singapore can not be measured properly because the company does not run the transfer pricing rules correctly. If in the application of interest, Company X and its subsidiaries become a loss or profit it is normal, the most important is the financial performance of the child and parent company is a real or not real performance so that its performance can be measured.

TABLE VI. COMPARISON OF INTEREST RATES IN INCOME STATEMENT AND CALCULATION OF CORPORATE TAX EXPENSE OF COMPANY X YEAR 2016

2016 (In Rupiah)	Without Interest Before Examination	Without Interest After Examination	With Interest
Income	33,606,765,084	33,606,765,084	33,606,765,084
COGS	29,227,592,910	29,227,592,910	29,277,592,910
Gross Profit	**4,329,172,174**	**4,329,172,174**	**4,329,172,174**
Operating Expenses	6,245,696,788	6,245,696,788	6,245,696,788
Operating Profit	**(1,916,524,614)**	**(1,916,524,614)**	**(1,916,524,614)**
Interest Expenses	(1,650,000,000)	(1,560,763,677)	(1,650,000,000)
Interest Income (Company Y)	-	-	81,123,930
Other Income (Expenses)	17,536,896,139	17,536,896,139	17,536,896,139
Earning Before Tax	**13,970,371,525**	**14,059,607,848**	**14,051,495,455**
Temporary Difference	52,358,877	52,358,877	52,358,877
Fixed Difference	(8,515,316,640)	(8,515,316,640)	(8,515,316,640)
Fiscal Profit (Loss)	5,507,413,762	5,596,650,085	5,588,537,692
Fiscal Profit (Loss) (Rounding)	**5,507,413,000**	**5,596,650,000**	**5,588,537,000**
Tax Allowance	98,326,863	99,920,060	99,775,215
Non Tax Allowance	1,180,199,523	1,199,322,379	1,197,583,821
Corporate Income Tax	**1,278,526,387**	**1,299,242,440**	**1,297,359,035**
Income Tax 23	-	-	(12,168,590)
Income Tax Payable	**1,278,526,387**	**1,299,242,440**	**1,285,190,446**
Income Tax 25	(216,006,732)	(216,006,732)	(216,006,732)
Under (Over) Payment	**1,062,519,655**	**1,083,235,708**	**1,069,183,714**
Tax Sanction	-	108,323,571	-
Total Tax Expense	**1,062,519,655**	**1,191,559,279**	**1,069,183,714**

Source: Audit Report, Processed by the Author

When viewed from any scheme with interest or not with interest in 2013, 2015 and 2016, it can be argued that Company X should start to charge interest on its transaction with a related party because otherwise it could be detrimental to Company X itself because it must pay the tax burden which is greater than the tax burden by wearing flowers.

V. CONCLUSION AND SUGGESTION

A. *Conclusion*

The transfer pricing policy applied by Company X for its intra-group transaction is the interest payment transaction made with a related party without interest. This interest-free loan policy is an agreement between the parent and the subsidiary. This can lead to irregularities if these loan transactions are continuously conducted without charging interest on the loan.

This interest-free loan transaction policy also violates Government Regulation No. 94 of 2010, which explains the requirements to be met by the company if it wants to apply an interest-free loan. However, after a test of the requirements of Government Regulation No. 94 of 2010, Company X does not meet the first requirement that the source of the loan comes from the shareholders, not from other parties. In practice, loans received by a subsidiary are loans originating from Bank ABC and Bank XYZ. Therefore, it can be said that Company X must collect interest on the loan transaction.

In the transfer pricing documentation, the determination of transfer pricing method for interest payment transactions is the CUP method. This method compares the interest rate used by the company with the comparative interest rate, i.e. by using the interest rate of Bank ABC and Bank XYZ.

It can be said that the company does not apply good tax planning. It can be seen that Company X still implements interest-free loans, whereas from the calculation of the three schemes that the taxes paid by Company X on a no-interest scheme after inspection are much greater than the tax on the scheme with interest. This will certainly harm the company itself if it still does not charge interest on the loan transaction.

B. *Suggestions*

In relation to loan transactions that occur between the parent and subsidiary companies, Company X should change its tax management so that applicable transfer pricing rules are applied properly. In addition, the company should also measure the performance of its business with real figures, to reduce the risk of corporate tax.

Company X should also change its process of borrowing money from its subsidiary. Company X can save company money in the Bank so that it can generate bank interest. The interest can be given to a subsidiary to assist the subsidiary in conducting its business.

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